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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
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MIKE GLEASON
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KRISTIN K. MAYES
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
INC., AN ARIZONA CORPORATION, FOR
AUTHORITY TO IMPLEMENT ARSENIC
COST RECOVERY MECHANISMS FOR ITS
AGUA FRIA WATER, SUN CITY WEST
WATER, HAVASU WATER, AND TUBAC
WATER DISTRICTS.

Docket No. W-01303A-05-0280

IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
INC., AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON
FOR UTILITY SERVICE BY ITS SUN CITY
WEST WATER AND WASTEWATER
DISTRICTS.

Docket No. WS-01303A-02-0867

IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
INC., AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON
FOR UTILITY SERVICE BY ITS MOHAVE
WATER DISTRICT AND ITS HAVASU
WATER DISTRICT

Docket No. WS-01303A-02-0869

Arizona Corporation Commission

DOCKETED

DEC 30 2008

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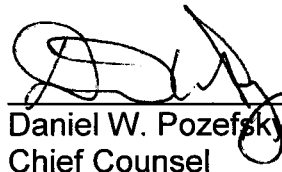
1 IN THE MATTER OF THE APPLICATION OF
2 ARIZONA-AMERICAN WATER COMPANY,
3 INC., AN ARIZONA CORPORATION, FOR A
4 DETERMINATION OF THE CURRENT FAIR
5 VALUE OF ITS UTILITY PLANT AND
6 PROPERTY AND FOR INCREASES IN ITS
7 RATES AND CHARGES BASED THEREON
8 FOR UTILITY SERVICE BY ITS ANTHEM
9 WATER DISTRICT, ITS AGUA FRIA WATER
10 DISTRICT, AND ITS ANTHEM/AGUA FRIA
11 WASTEWATER DISTRICT.

Docket No. WS-01303A-02-0870

7
8 **NOTICE OF FILING RUCO'S REPORT ON**
9 **ARIZONA-AMERICAN WATER COMPANY, INC.'S**
10 **STEP TWO ARSENIC FILING - AGUA FRIA DISTRICT**

11 The Residential Utility Consumer Office ("RUCO") hereby provides its Audit Report of
12 Arizona-American Water Company Inc.'s Step Two ACRM filing for its Agua Fria Water
13 District.

14 RESPECTFULLY SUBMITTED this 30th day of December, 2008.

15
16 
17 Daniel W. Pozefsky
18 Chief Counsel

19
20 AN ORIGINAL AND NINETEEN
21 COPIES of the foregoing filed this
22 30th day of December, 2008 with:

23 Docket Control
24 Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

1 COPY of the foregoing hand delivered/
2 mailed this 30th day of December, 2008 to:

3 Teena Wolfe
4 Administrative Law Judge
5 Arizona Corporation Commission
6 1200 West Washington Street
7 Phoenix, Arizona 85007

8 Janice Alward, Chief Counsel
9 Legal Division
10 Arizona Corporation Commission
11 1200 West Washington Street
12 Phoenix, Arizona 85007

13 Ernest G. Johnson, Director
14 Utilities Division
15 Arizona Corporation Commission
16 1200 West Washington Street
17 Phoenix, Arizona 85007

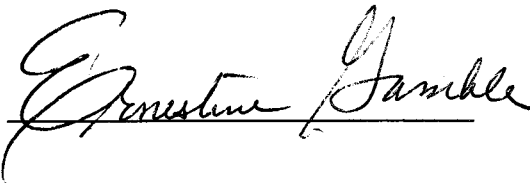
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David P. Stephenson
Director of Rates and Revenues
American Water Works Service Co., Inc.
303 H. Street, Suite 250
Chula Vista, California 91910

By 

TO: Stephen Ahearn, Director
Dan Pozefsky, Chief Counsel

FROM: Rodney Moore, Public Utilities Analyst

RE: **AGUA FRIA** - Report on RUCO's audit of the Arizona-American Water Company filing for an Arsenic Cost Recovery Mechanism ("ACRM") Step 2 rate increase for its Agua Fria Water System.

AUDIT OBJECTIVE: The purpose and objective of this audit was to verify the operations and maintenance ("O&M") expenditures of the completed arsenic plant in the Agua Fria Water District, to verify the prior 12 months of deferred O&M costs and the ongoing O&M costs, verify compliance with Decision Nos. 68310 and 66400 authorizing the ACRM, and verify the accuracy of the requested ACRM surcharge.

AUDIT PROCEDURES: I performed the following audit procedures:

- 1) Verified that all schedules that are required by Decision No. 66400 are included in the application.
- 2) Reviewed Earnings Test for compliance, accuracy, and determined if the Company had passed the Earnings Test.
- 3) Reviewed all arsenic O&M invoices, looking for such things as misallocations, unreasonable costs, non-arsenic O&M costs, double billings etc.
- 4) Verified accuracy of invoice totals and grand total.
- 5) Reviewed Revenue Requirement calculations for accuracy and compliance.
- 6) Reviewed rate design for accuracy of calculations, and checked the reasonableness of the billing determinants by comparing to the instant rate case.

AUDIT FINDINGS: The Agua Fria Water ACRM filing is accurate and in compliance with Decision Nos. 68310 and 66400.

AUDIT RECOMMENDATIONS:

The Company's ACRM request should be approved as filed. RUCO recommended ACRM step 2 rate increases are displayed on the attached Schedule RUCO ACRM-2.

RUCO ADJUSTMENT TO ACRM - AGUA FRIA WATER DISTRICT

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] RUCO ADJUSTMENT	[C] RUCO AS ADJUSTED
1	Arsenic Plant Revenue Requirement			
	Gross Arsenic Plant in Service/Rate Base	\$ 4,368,749	\$ -	\$ 4,368,749
	Accumulated Depreciation Of Arsenic Plant (Step 1)	(675,259)	-	(675,259)
2	Net Arsenic Plant in Service/Rate Base	\$ 3,693,490	\$ -	\$ 3,693,490
3	Depreciation rate	3.90%		
4	Depreciation expense	144,004	-	144,004
5	Depreciation expense net of tax savings ¹	88,420	-	88,420
6	Recoverable O&M costs - Ongoing	683,036	-	683,036
7	Recoverable O&M costs - Ongoing Net Of Tax Savings	419,394	-	419,394
8	Arsenic Operating Income	\$ (507,814)		\$ (507,814)
9	Rate of return	-11.62%		
10	Required Rate of Return ²	6.50%		
11	Required Operating Income	240,077	-	240,077
12	Operating Income deficiency	747,891	-	747,891
13	Gross revenue conversion factor ²	1.62863	-	1.62863
14	Revenue deficiency	\$ 1,218,038	\$ -	\$ 1,218,038

¹ 38.5986 % tax rate per Dec. 67093

² Decision No. 67093

COMPANY PROPOSED

RATES	CURRENT RATES FOLLOWING ACRM STEP 1	PROPOSED ACRM STEP 2 BASE SURCHARGE	PROPOSED ACRM STEP 2 DEFERRED O&M SURCHARGE	TOTAL PROPOSED
Basic Monthly Minimum Service Charge				
5/8" Meter	\$ 9.57	\$ 1.24	\$ 0.70	\$ 11.50
Commodity Rates Per 1,000 Gallons				
0 to 4,000 gallons	\$ 1.3092	\$ 0.1102	\$ 0.0618	\$ 1.4812
4,001 to 15,000 gallons	\$ 1.7442	\$ 0.1102	\$ 0.0618	\$ 1.9162
15,001 gallons and over	\$ 2.0102	\$ 0.1102	\$ 0.0618	\$ 2.1822

RUCO PROPOSED

RATES	CURRENT RATES FOLLOWING ACRM STEP 1	PROPOSED ACRM STEP 2 BASE SURCHARGE	PROPOSED ACRM STEP 2 DEFERRED O&M SURCHARGE	TOTAL PROPOSED
Basic Monthly Minimum Service Charge				
5/8" Meter	\$ 9.57	\$ 1.24	\$ 0.70	\$ 11.50
Commodity Rates Per 1,000 Gallons				
0 to 4,000 gallons	\$ 1.3092	\$ 0.1102	\$ 0.0618	\$ 1.4812
4,001 to 15,000 gallons	\$ 1.7442	\$ 0.1102	\$ 0.0618	\$ 1.9162
15,001 gallons and over	\$ 2.0102	\$ 0.1102	\$ 0.0618	\$ 2.1822

[5]